

Fundamentals Level – Skills Module

Taxation (Cyprus)

Thursday 8 December 2016



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–4.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

Paper F6 (CYP)

Think Ahead

ACCA

ZEAK

The Association of Chartered
Certified Accountants

The Institute of Certified Public
Accountants of Cyprus

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest € unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the year 2015 are to be used in answering the questions.

Income tax

€0 – €19,500	Nil
€19,501 – €28,000	20%
€28,001 – €36,300	25%
€36,301 – €60,000	30%
Over €60,000	35%

Capital allowances

Plant and machinery	
– acquired in the years 2012, 2013 and 2014	20%
– otherwise	10%
Motor vans	20%
Hotels, industrial and agricultural buildings	
– acquired in the years 2012, 2013 and 2014	7%
– otherwise	4%
Other buildings	3%
Computer hardware and operating software	20%
Application software	33·3%

Corporation tax

All companies	12·5%
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Interest and surcharge on unpaid tax

Interest on income and corporation tax assessments (Interest is calculated on the basis of completed months. The same rate applies to overpayments of tax.)	4% p.a.
Additional tax	5% of tax due
PAYE assessments	4% p.a. plus a surcharge of 1% per month

Special defence contribution tax

On dividends received (where applicable):	17%
On interest received:	
– standard rate:	30%
– reduced rate (applicable under specific circumstances)	3%
On rental income (on 75% of the gross rental income)	3%

Value added tax (VAT)

Registration limit	€15,600
Deregistration limit	€13,669
Standard rate	19%
Reduced rates	5%, 9%

Social insurance contributions

Social insurance fund	7·8%
Redundancy fund	1·2%
Industrial training fund	0·5%
Social cohesion fund	2%
Central holiday fund (if not exempted)	8%
Maximum annual insurable income of monthly paid employees	€54,396
Self-employed contributions	14·6%

Capital gains tax

Rate	20%
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Lifetime exemptions

General	€17,086
Farmer in respect of farmland	€25,629
Residential dwelling – restricted to land of 1·5 decares (1,500 square metres)	€85,430

Retail price index for capital gains purposes

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.1.80	34.96											
1980	35.40	35.68	35.99	37.23	36.74	36.81	37.54	37.57	38.22	38.53	38.79	39.16
1981	39.62	39.95	40.32	40.61	40.62	41.01	41.50	41.76	41.98	42.33	42.95	43.20
1982	43.18	43.58	43.46	44.05	43.95	43.63	43.44	43.73	44.19	44.38	44.94	45.19
1983	45.59	45.66	46.08	46.66	46.31	45.69	45.70	46.08	46.17	46.64	46.80	47.06
1984	47.46	47.78	48.06	48.38	48.80	48.86	49.21	49.15	49.01	49.63	50.41	50.90
1985	50.85	50.89	51.31	51.44	51.31	50.84	50.60	51.42	52.11	52.65	51.92	51.85
1986	52.18	52.13	52.24	51.83	51.25	51.21	51.75	51.73	51.71	52.40	53.06	53.31
1987	52.76	52.63	53.23	53.04	53.41	53.88	53.10	53.82	53.91	53.71	54.16	54.53
1988	54.47	54.89	55.22	55.79	55.22	54.73	54.35	54.71	55.35	55.97	56.71	56.82
1989	57.46	57.17	57.28	57.47	56.87	56.66	56.88	57.02	57.39	58.43	58.44	58.42
1990	58.21	58.75	59.37	60.25	60.50	60.04	59.50	59.93	60.12	60.80	61.00	61.80
1991	62.18	61.69	62.18	62.65	63.08	62.44	62.63	61.71	62.87	64.54	64.77	65.83
1992	66.60	65.68	66.52	67.57	66.50	66.20	66.61	66.21	67.05	67.91	68.78	70.11
1993	70.43	68.69	69.08	70.57	69.80	69.64	70.17	69.54	70.48	71.95	72.49	72.32
1994	72.12	70.44	72.18	72.89	73.01	73.48	73.77	72.64	75.11	76.48	76.32	76.09
1995	75.34	73.46	74.92	75.47	75.49	75.49	75.83	74.62	75.49	76.82	77.38	77.33
1996	77.22	75.37	77.37	77.70	77.94	77.88	78.13	77.11	78.43	79.12	79.17	79.27
1997	79.27	78.05	80.21	80.94	80.33	80.28	81.21	79.89	81.15	82.09	82.61	82.37
1998	80.84	80.73	81.24	82.23	82.37	82.71	82.32	82.86	84.17	83.86	83.49	83.15
1999	82.80	81.66	82.96	83.19	83.42	83.54	83.78	82.99	84.72	85.42	85.65	85.99
2000	86.17	85.18	86.80	87.16	87.50	87.04	87.01	86.81	87.88	88.41	88.87	88.99
2001	87.41	87.23	88.05	88.68	88.98	89.65	87.89	88.38	89.68	90.81	90.64	91.10
2002	89.77	89.58	90.13	91.03	91.08	91.47	90.81	91.71	92.74	93.09	93.23	93.78
2003	93.45	93.55	95.51	96.11	95.73	95.15	93.84	94.41	96.11	96.89	97.01	96.12
2004	95.14	95.29	95.90	96.57	97.16	97.82	96.94	97.43	98.39	99.35	99.91	100.15
2005	98.29	98.03	98.62	99.70	99.62	99.85	98.36	99.00	100.84	102.38	102.96	102.33
2006	100.50	100.62	101.81	102.65	102.74	102.87	101.53	102.07	103.24	103.84	104.06	104.00
2007	102.15	102.08	103.33	104.47	105.00	104.78	104.00	104.59	105.96	106.95	107.73	108.07
2008	106.58	107.11	108.19	109.30	110.59	110.51	109.85	110.24	111.61	112.55	111.43	110.34
2009	107.76	107.82	109.36	110.07	110.89	110.74	108.97	109.15	110.24	111.65	112.95	112.60
2010	110.38	110.92	111.98	112.76	112.67	112.89	111.77	112.69	114.14	115.05	114.63	114.45
2011	113.51	114.00	115.12	116.46	117.04	117.62	115.89	115.95	116.86	118.55	118.93	118.95
2012	117.05	117.52	119.00	120.05	120.49	119.70	118.41	119.05	119.80	120.61	120.36	120.26
2013	119.19	119.45	120.27	119.69	119.66	119.79	118.04	117.92	118.57	118.68	117.83	117.49
2014	115.75	116.37	117.52	117.78	118.03	118.37	117.35	117.07	117.49	118.10	117.65	115.77
2015	114.23	114.73	115.31	115.34	115.68	115.50	113.86	113.95	114.52	115.11	115.16	114.35

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** The following information relates to Mr Christos in respect of the year ended 31 December 2015:
- (1) During the year 2015 Christos received income of €70,000 from Green Building Ltd. Christos prepares architectural plans for Green Building Ltd. He is paid a fixed fee for each architectural plan which he works on. He is under no obligation to accept any of the contracts offered by Green Building Ltd, and he carries out the work under his own control.
 - (2) Christos uses a leasehold office to carry out his work. He only visits the premises of Green Building Ltd to attend meetings. The total rent paid for the office during 2015 was €6,000, and the total running costs of the office were €4,650.
 - (3) Christos uses his personal mobile phone for his work. His total mobile phone bills are €60 per month, of which 40% relates to his private use.
 - (4) Christos is required to provide all of his own equipment. On 1 January 2014, he purchased computer hardware for €1,500, and computer software for €900.
 - (5) Christos uses his personal car for his work. The car was acquired in 2012 for €25,000 and its running costs in 2015 were €5,000. The car is used 60% for business purposes.
 - (6) Christos paid social insurance contributions of €7,000 in 2015.
 - (7) Christos pays a life insurance premium of €8,800 per year under a life insurance policy. The capital sum insured on his death is €100,000.

Required:

- (a) **List FOUR criteria to be considered when deciding whether Christos is employed or self-employed in respect of his work for Green Building Ltd.** (2 marks)
- (b) **Assuming that Christos is treated as self-employed, calculate his taxable income for 2015.** (8 marks)

(10 marks)

- 2 (a) The following information relates to the management accounts of Beaten Ltd for the quarter ended 30 June 2015:

	€	€
Cash sales (before any discount)		18,300
Credit sales (before any discount)		28,500
		<hr/>
		46,800
Purchases	25,400	
Impaired debt written off	4,500	
Entertaining expenses	800	
	<hr/>	
		(30,700)
		<hr/>
Profit		16,100
		<hr/>

Notes:

- (1) The sales and other expenses (except entertaining) are all standard rated for VAT. Entertaining expense was a 9% rated supply.
- (2) A 10% discount was given to all customers who paid cash for their purchases on the purchase date. A 10% discount was also offered to customers who purchased goods on credit for payment within 15 days of the date of the sales invoice. Since the introduction of this policy on 1 January 2015, 75% of Beaten Ltd's credit customers have paid within 15 days.
- (3) Input tax on all purchases is recoverable.
- (4) The impaired debt was written off in June 2015. Payment for the original sale was due on 30 September 2014.
- (5) Included in entertaining expenses is €500 spent on entertaining key clients. The remaining €300 expense relates to the entertainment of staff.
- (6) In May 2015, it was discovered that a sales invoice for €800 had been omitted in error from the VAT return for the quarter to 31 December 2014.
- (7) All figures are stated exclusive of any applicable value added tax (VAT).

Required:

Calculate the amount of value added tax (VAT) payable by Beaten Ltd for the quarter ended 30 June 2015.

(6 marks)

- (b) **Explain the circumstances in which a VAT registered trader can make a voluntary correction of an error discovered in regard to a previous VAT return, and the possible tax benefits of doing so.**

(4 marks)

(10 marks)

- 3 (a) Skynet Holdings Ltd owned 80% of the shares in Tremendous Ltd, a company resident in Cyprus. On 1 May 2015, Skynet Holdings Ltd sold half of its shareholding in Tremendous Ltd for a sales price of €1,500,000, realising a profit of €470,000.

Tremendous Ltd owns an immovable property in Cyprus with a current market value of €330,000, as well as an immovable property situated in Ackland with a current market value of €420,000. The immovable property in Cyprus was purchased for €160,000 on 21 May 2004, and its 1 January 1980 value is €26,000. The value of the Ackland immovable property when purchased on 1 June 1994 was €45,000, and its 1 January 1980 value is estimated as €15,000.

Skynet Holdings Ltd has a capital loss brought forward from a previous disposal of €10,650.

Required:

Calculate the capital gains tax payable by Skynet Holdings Ltd in respect of the sale of the shares in Tremendous Ltd. (5 marks)

- (b) As at 31 December 2014, Marialena owned the following properties, which were both registered in her name:

Property	Market value as at 31 December 2014 €	General value as at 1 January 1980 €
House in Lemesos	250,000	25,000
Land in Platres village	147,000	36,000

In January 2015, Marialena sold one-third of the land in Platres village. The land had been purchased by her father in 1970 for €14,000. This is the first disposal of an immovable property which Marialena has ever made.

Required:

Calculate Marialena's chargeable gain in respect of the sale of the land in Platres village. (4 marks)

- (c) **State the circumstances in which a gift of immovable property will NOT be subject to capital gains tax.** (1 mark)

(10 marks)

- 4 (a) Amalia Holdings Ltd received a tax assessment for the tax year 2013, dated 20 June 2015. The company's finance director believes that the tax assessment is excessive, and the board of directors has decided to object.

Required:

(i) **State the latest date by which the objection should be submitted.** (1 mark)

(ii) **Explain the powers and procedures the Tax Department will follow on receiving an objection, and state the relevant deadlines.** (4 marks)

- (b) Metamorfosis Ltd's final corporation tax return for the year 2015 shows a balance of tax payable of €10,000 in respect of the year 2015.

Required:

Calculate the interest and penalties payable by Metamorfosis Ltd if the corporation tax return was not submitted nor the outstanding tax paid until 20 June 2017.

Note: You should ignore any interest payable on penalties. (5 marks)

(10 marks)

- 5 The Hercules group consists of five companies: Hercules Holdings Ltd (HHL), Alcmena Ltd (AL), Zeus Ltd (ZL), Hydra (Utopia) Ltd (HUL), and Zeus Ltd's subsidiary, Iphikles Ltd (IL). HHL controls 90% of AL, 80% of ZL and 80% of HUL. ZL controls 95% of IL.

HHL, AL and ZL are all Cyprus registered companies. HUL and IL are Utopia registered companies. The management and control of HHL, AL, ZL and HUL is exercised in Cyprus. IL is a Utopia tax resident trading company.

HHL acquired its interests in its subsidiaries as follows:

- AL 50% on 1 September 2013 and a further 40% on 31 March 2015;
- ZL all 80% on 23 February 2013; and
- HUL 90% on 2 January 2012 (the date of incorporation), but 10% was sold on 15 July 2015 resulting in a capital gain of €250,000.

ZL acquired its entire 95% interest in IL on 1 January 2013.

All five companies have an accounting year end of 31 December.

Financial information regarding the group companies for the year 2015 is as follows:

	HHL	AL	ZL	HUL	IL
	€'000	€'000	€'000	€'000	€'000
Trading profit/(loss) (Note 1)	1,000	100	(150)	(175)	(95)
Other income (not included in the trading profit/(loss) above):					
Capital gain on the sale of shares in HUL	250				
Interest received on loans to group companies	120				
Profit from Nordan branch (Note 2)			150		
Dividend received from AL	40				
Dividend received from IL			10		
Rental income (Note 3)		136			

Notes:

1. HHL financed the acquisition of the shares in its four subsidiaries through a bank loan. The interest paid in respect of this bank loan by HHL during the year 2015 was €55,000. HHL treats this interest paid as a trading expense.
2. The Nordan branch has been incurring losses for several years. These accumulated losses amounted to €250,000 as at 31 December 2014, for all of which ZL has claimed tax relief in previous years. The Nordan corporation tax rate is higher than the Cyprus corporation tax rate, and the branch's investing activities are negligible.
3. AL's rental income includes a premium received on a ten-year lease of €100,000, and €36,000 annual rental income from a shop in Ledras, Nicosia. The shop was acquired by AL in 2013 for €500,000. The original cost incurred in 1995 had been €130,000, including €30,000 for the land value. AL incurred €5,000 on repairs in 2015.

Required:

- (a) State, giving reasons, whether the bank loan interest paid by Hercules Holdings Ltd (HHL) on the loan used to acquire its subsidiaries is deductible for tax purposes. (1 mark)
- (b) State, giving reasons, which of the other four companies can potentially be members of HHL's tax group for the year ended 31 December 2015, and which cannot. (4 marks)
- (c) Calculate the corporation tax liability of each member of the HHL tax group for the year 2015, assuming that any available reliefs are given in the most tax efficient manner. (10 marks)

(15 marks)

- 6 (a)** Mr Thanasis is a retired person, who is tax resident in Cyprus. The following information relates to Mr Thanasis for the year 2015:
- (1) He received a 13-month state pension of €1,800 (gross) per month.
 - (2) In January 2013, he took out a life insurance policy, insuring a capital sum of €100,000 on his death. The policy has an annual premium of €1,500, and he has obtained income tax relief in each of the years since 2013 in respect of this insurance premium. He cancelled this insurance policy on 30 April 2015.
 - (3) He has a part-time job as a receptionist in a small hotel in Cyprus from which he earned €6,500 in 2015. He is also provided with a small car by the hotel, which has an annual running cost of €3,500. The private use of the car is 60%.
 - (4) He receives rental income from a luxury flat in Protaras which he owns jointly with his wife, Andri. The flat was acquired in 2003 for €300,000 (including land of €80,000). The total rents received jointly by Thanasis and Andri in 2015 were €30,000, and they paid €1,000 in interest on the loan they had taken out in order to buy the flat. They also incurred €1,000 on repairs on the flat in 2015.

Required:

Calculate Mr Thanasis' income tax liability for the year 2015. (11 marks)

(b) Explain, in detail, when a car benefit arises, and how it should be calculated. (4 marks)

(15 marks)

End of Question Paper